 H/R

Secret

25X1

East Asia

STAFF NOTES

Secret

185

December 15, 1975
No. 0780/75

25X1

Approved For Release 2002/08/06 : CIA-RDP79T00865A002300330001-1

EAST ASIA

This publication is prepared for regional specialists in the Washington community by the East Asia - Pacific Division, Office of Current Intelligence, with occasional contributions from other offices within the Directorate of Intelligence. Comments and queries are welcome. They should be directed to the authors of the individual articles.

CONTENTS

December 15, 1975

Next 6 Page(s) In Document Exempt

Approved For Release 2002/08/06 : CIA-RDP79T00865A002300330001-1

25X1A

Japan: Recovery in Trouble?

The Japanese economic upturn that began in early 1975 appears to be losing momentum. Faced with an already large budget deficit, Tokyo is reluctant to provide any new fiscal stimulus until next spring. Since private investment and consumer spending will not be strong enough to propel recovery, the government may be forced to take action earlier than planned.

Industrial output has been stagnant since July after increasing 8 percent in the previous five months. Small gains in consumer goods industries in recent months have been offset by declining output of producer goods. The continuing investment slump has cut production of capital equipment by 20 percent in the past two years and 5 percent since early 1975.

Efforts to adjust inventories also account for the lackluster production performance. Although down sharply from its previous peak, the ratio of inventories to consumption remains 40 percent above normal and is edging down only slowly. Stocks of industrial materials are particularly high; steel producers, for example, stuck with a 42-day steel supply, intended to cut their output 11 percent in the current quarter.

Most private spending indicators remain anemic. Department store sales, a good indicator of household consumption, rose only 0.7 percent in real terms in July-September after declining 1.0 percent the previous quarter. October sales showed no growth. With unemployment hitting a record high of practically 2 percent in September, consumers have become even more cautious. Average savings rates are once again trending up, reaching 24 percent in the third quarter--the highest rate among major industrial countries.

December 15, 1975

An expected, bottoming out in fixed investment has thus far failed to materialize. Private orders of machinery and equipment have continued their slide, dropping 9 percent in the third quarter. Government efforts to revive investment by easing credit evidently are having little impact because major industries still have substantial excess capacity. Housing remains the most lively component of private domestic demand; new starts rose an estimated 50 percent between January and August.

Among the few recent improvements has been a small upturn in foreign demand for Japanese goods. Export volume in the third quarter rose 2.5 percent, the largest quarterly increase in a year. Much of the gain was in the US market, where Japanese firms are rebuilding passenger car inventories. To help boost sales to the US and other markets, Japanese firms continue to shave yen export prices--by 6 percent since early 1975. With a 3 percent depreciation of the yen over the same period, dollar prices declined 9 percent.

Import volume has also turned up, gaining 6.5 percent in the third quarter. The rise occurred mainly in September and reflects higher purchases of oil, grains, and coal. Arrivals, moreover, were accelerated because of the oil price hike scheduled for 1 October and an anticipated dock strike. In any event, imports of most raw materials and finished goods remain sluggish, reflecting still weak final demand.

Although concern about the pace of recovery is growing, Tokyo has not yet revised its spending plans. According to these plans, real government outlays are expected to increase only 5 percent (annual rate) in the current half year, compared with 13 percent in the first half.

Tokyo had been planning on a further spending slowdown in first half 1976, counting on a revival

December 15, 1975

in private spending to take up the slack and maintain the momentum of recovery. At least some Ministry of Finance officials, however, expect real growth in the six months ending in March to be only half the 6 percent (annual rate) Tokyo was counting on.

Although details are not yet available, Japanese officials are reportedly considering a new spending program to help push recovery. Tokyo thus far has been reluctant to take new measures, preferring instead to await the impact of the $6,7 billion fiscal package announced in October. We judge that this package provides mainly for the refunding of programs already in being.

The government has also been worried about financing problems stemming from the record $19 billion budget deficit in the fiscal year ending in March. As it now stands the deficit is the equivalent of 3.6 percent of GNP--not a particularly large share compared with the 2 percent proportion recorded in 1972 when Tokyo was stimulating recovery from a mild economic slump. [redacted] 25X1

December 15, 1975

South Korea: Big OPEC Contractor

25X1A

South Korea is becoming a major construction contractor for OPEC countries. Contracts will top a billion dollars by year-end and could total $10 billion within five years. By the early 1980s, the South Koreans hope to be second only to US and Italian firms in the value of construction projects in OPEC states. Korean firms have already proved their speed and efficiency in basic construction, such as shipyards and roads, and are expanding as subcontractors into more complex fields.

In January-October 1975, Korean firms signed construction and service contracts with OPEC members worth at least $800 million, compared with only $100 million for all of 1974. Next year, the Koreans hope to double the volume of contracts. To help meet the goal, Seoul has established a $100-million loan fund to finance (a) survey and bidding expenditures and (b) sales of Korean construction materials. The government also has encouraged the formation of a consortium of 25 construction companies to undertake large projects and eliminate price cutting.

Fifteen contracts worth at least $500 million have been signed this year with Saudi Arabia alone, including a $182 million port construction project. Tiny Bahrain has hired Korea's largest construction outfit, the Hyundai Construction Company, to build a $160-million supertanker repair yard. In Iran, the South Koreans will participate in a $1.5 billion, 100,000-unit housing construction program. In Indonesia, they expect to win building contracts for two cement plants.

The South Koreans have their main expertise in basic civil engineering projects. With an abundance of low-cost skilled labor, South Korean firms have

December 15, 1975

been able to underbid large international companies. Their efficiency, speed, and experience in foreign areas--derived in large part from their Vietnam projects--give them an additional competitive edge. Korean firms promised, for example, to complete the Bahrain tanker drydock within two years. Given their track record--building the world's largest shipyard on their own in 15 months--the Koreans probably can meet their commitments.

South Korea: Construction Contracts in OPEC Countries as of 1 November 1975

	Project	Million US $	Remarks
Total		784	
Saudi Arabia	Road construction	150	Five contracts; largest worth $55 million
	Oil storage facilities	25	Two contracts
	City beautification	24	In Jiddah; could be expanded to $150 million
	Port and naval base construction	348	Four contracts at new port of Jubail; largest is $181.5 million for naval base facilities
	Labor supply	30 (One contract only)	Three contracts for 8,000-12,000 Korean workers; 7,000 technicians and skilled workers for gas desulfurization projects; others include engineers, drivers, and stevedores
Iran	Port construction	32	Development of Khorramshahr port
	Housing construction	Unknown	Participation in $1.5 billion housing contruction project -- 100,000 units
	Labor supply	Unknown	Agreement to send 5,200 new workers during 1976
Abu Dhabi	Bridge construction	15	Six-lane highway bridge
Bahrain	Ship repair yard	160	Drydock for supertankers to be completed in September 1977

December 15, 1975

In more sophisticated projects, the Koreans are acting as subcontractors. US firms have been particularly interested in using Korean enterprises and are considering them as subcontractors on a $200 million desalinization plant in Saudi Arabia. Korean firms are also slated to participate in building Aramco's $4.6 billion natural gas gathering and treatment system. In addition to subcontract work, South Koreans are being employed on a direct-hire basis. Two Iranian transport firms, for example, have agreed to hire 1,300 Korean truck drivers.

As a result of construction and labor contracts, the Koreans soon will form the largest non-Moslem work force in several Persian Gulf countries. About 3,000 are now working in Iran and Saudi Arabia, and their numbers will increase sixfold within a year or two. Agreements reached in November between Tehran and Seoul provide for sending 5,200 Korean technicians and skilled laborers to Iran next year, including welders, plumbers, and heavy equipment operators. For just one Saudi-Korean joint venture--construction of five gas desulfurization plants for Aramco--the Koreans are to provide 7,000 workers.

<u>The Korean Take</u>

The financial return from construction and service contracts, albeit small so far, could easily amount to several hundred million dollars annually in the next few years. Exports of related construction material to OPEC already are rising rapidly. Cement and steel shipments to the group totaled $80 million through June, compared with $3 million for all of 1974. OPEC exposure to Korean prices and workmanship is leading to contracts for other goods. Kuwait, for example, placed a $237 million order late last year for bulk cargo ships and Iran may follow suit. Koreans have also won contracts to supply military uniforms worth at least $100 million. 25X1

December 15, 1975

Laos: The Communist Blueprint for the Future

25X1A [redacted]

Lao communist leader and Prime Minister Kaysone Phomvihan on December 3 issued a lengthy "program of action" outlining the new government's plans and general policies. The communists obviously spent considerable time drawing up this document and have already begun implementing many of its provisions.

The Diplomatic Program

The action program closely resembles the "18 Point Political Program" drafted by Prince Souphanouvong and adopted by the coalition government in late 1973. In terms of foreign relations, it states that Laos wishes continued relations with all countries without regard to ideology or social system. It also contains, however, denunciations of US "imperialists who are colluding with Thai reactionaries to encourage Lao reactionary forces" and demands that the US provide economic assistance "to heal the wounds of war." It does not make aid a specific condition for continuing relations.

The program supports "peoples throughout the world and especially in Southeast Asia struggling for peace, independence, neutrality and social progress" and pledges solidarity with Vietnam and Cambodia, but says that each country should advance along its own specific path.

Administrative and Security Policies

To ensure that the program of action is correctly implemented, the communists intend to reform the government administration. The traditional rather loosely structured administrative system will be replaced by tight supervision from Vientiane of all activities in the countryside. While promising to utilize qualified officials from the old government, personnel in the

December 15, 1975

ministries in Vientiane are being reshuffled. [redacted] 25X1
25X1 [redacted] the process of integrating personnel from the old communist bureaucracy in Sam Neua is scheduled to begin on December 15. Hundreds of former government officials will immediately be reassigned to 30-45 day re-education seminars.

The new program indicates that the communists intend to continue and intensify the campaign that had been under way for several months to "smash counterrevolutionary organizations and activities of the enemy." The government will also strengthen the people's security forces, including the secret police apparatus. Somseum Khamphitoun, the chief of the Lao communist secret security organization, is minister of interior in the new government and presumably will move quickly to expand his organization throughout the country.

The Pathet Lao armed forces as well as the militia units will be expanded. Forces along the Thai border will be increased as will garrison units in former rightist towns where the communists have been hard pressed to cope with festering tribal resistance.

Economic Policies

The basic communist economic goal of the new program is to make Laos self-sufficient in food, and the program promises assistance to farmers in "making and using fertilizer," selecting seedlings and repairing farm tools. The government will also set up a number of State Agricultural Demonstration Centers and some agricultural cooperatives to produce on a large scale and to test new agricultural techniques.
25X1 [redacted] the first of these communes has already been set up in Savannakhet Province by grouping eight villages into a "working cooperative." If the results are satisfactory, the idea will reportedly be implemented elsewhere.

December 15, 1975

According to the program, the government intends to end the migratory slash and burn agriculture practiced by the Meo and other hill tribesmen by settling them in "certain areas." While this objective is stated in terms of ending the deforestation of the hills, the communists are probably also anxious to begin to disperse the Meo and other tribesmen who provided the bulk of the anti-communist irregular military forces and are still offering sporadic resistance to communist rule.

The government will promulgate laws on state ownership of some lands and forests as well as all "economic and financial bases." Existing privately owned industrial plants may continue, but under the close supervision of the government--with the assistance of the workers. The government has already nationalized all banks and "close government supervision" is almost certainly a prelude to state ownership of the few private industrial enterprises in the country.

The government will control all commerce by regulating exports and imports and imposing price controls on private merchants. State merchandising cooperatives will be expanded. Faced with the prospect of this increased government control and competition from state cooperatives, as well as difficulties in getting merchandise and increased taxes, more than half of Vientiane's Vietnamese, Indian, and Chinese merchants are already planning to leave the country.

Eliminating Imperialist Culture

The Lao communist leaders have long railed against the "western decadence" of Vientiane. The action program proposes:

--to mobilize the people to destroy all reactionary novels, books, newspapers and pictures that arouse imperialist

December 15, 1975

sexual passion and to get rid of social ills such as gambling, prostitution, and robbery;

--increase traditional culture and art activities;

--heighten quality of newspapers for training the masses;

--increase and improve educational facilities.

The government pledges to respect Buddhism and the work of priests of other religions. [redacted] 25X1

25X1 [redacted]

December 15, 1975

Hanoi Opens Dialogue with the French

25X1A

North Vietnam and France have recently concluded high-level talks in Hanoi. The discussions focused on the immediate question of resolving the status of French citizens and property in South Vietnam following the communist take-over, but the two sides have larger interests at stake. Hanoi, anxious to lessen its dependence on China and the USSR, views the French as a useful window to greater economic and political contacts in Western Europe. Paris hopes not only to recover some of its direct business investment in South Vietnam--several hundred million dollars in recent years--but also to re-establish France as the foremost Western political and economic force in Indochina.

The French delegation to Hanoi--the first such high level visit in 15 years--was led by Foreign Ministry Chief of Staff Geoffroy de Courcel. Although the communique issued at the end of the week-long talks on December 2 was short on substance, the French ambassador in Bangkok has provided some details. Hanoi, according to the ambassador, has agreed to facilitate the departure of all persons with French passports who want to leave, regardless of whether or not they are of Vietnamese extraction. There had been some concern that Hanoi would put obstacles in the path of persons of Vietnamese origin who hold French citizenship or who are married to French citizens. The airlift that has been used to ferry French and other foreign nationals out of Saigon to Bangkok will be allowed to continue for several months.

The ambassador also claims that Hanoi has given the go-ahead for the French to set up a consulate general in Saigon. If true, this would mark a shift in North Vietnam's handling of the diplomatic status of the Provisional Revolutionary Government in the

December 15, 1975

south. Since the take-over Hanoi, as part of its overall effort to sustain the fiction of an independent regime in the south, has insisted that the ambassadors of other governments be dually accredited to both the north and south. This practice has continued even after the announcement in early November that the two zones would seek early reunification. In granting Paris permission to set up a consulate general in Saigon accredited solely to the north, Hanoi seems already to be looking beyond the process of formal reunification, a step that probably won't occur until sometime next spring.

The future of French properties in the south remains clouded. Most of the large commercial operations, such as the banks, insurance companies, and plantations, have already been nationalized. Smaller French businesses may be allowed to continue for a while under tight regulation. Undoubtedly much French private property has been confiscated or simply lost during the confusion of the take-over.

It may take years for compensation negotiations to run their course. Paris hopes to exercise some leverage by linking the issue with aid, including some unused aid granted to the former Saigon government. According to the ambassador in Bangkok, the French government will look favorably on the aid program if the Vietnamese are sensible about French property. 25X1

December 15, 1975

Secret

Approved For Release 2002/08/06 : CIA-RDP79T00865A002300330001-1